

A Mission 30 Years In The Making

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ANNUAL CHAIRMAN'S LETTER 2015

OUR LONG-TERM PERSPECTIVE

Finding ourselves once again in a period of great turbulence in the global markets, Blackstone's long-term perspective is more essential than ever. Our firm was built to perform over decades, not quarters or years, and is led by a seasoned team that has navigated many market cycles. We are well positioned for the current cycle, with a solid balance sheet, a cost-effective and long-dated debt structure, and ample dry powder.

SCALE CAPITAL, INNOVATION, AND GLOBAL REACH

Blackstone has never been better positioned to be a source of strength and stability for investors, corporations and communities in an increasingly uncertain world. Our \$80 billion of dry powder gives us "scale capital," which we can deploy in an agile manner as opportunities emerge from market turmoil. Our drawdown funds are locked up for the longer term, so we're never under pressure to sell to meet redemptions and can make new investments while others are in retreat.

The breadth of our businesses and the extent of our global reach are a key advantage. We have commanding positions across businesses spanning private equity, real estate, credit and hedge funds. Each business is a leader in its sector and has a global mandate. Coupled with a closely-knit organizational structure that enables our teams to seamlessly share expertise and insights, this gives us the ability to see – and seize upon – opportunities that others might miss.

We're also an innovation machine with a history of creating and rapidly scaling new products. While most companies struggle to build great businesses outside of their original success, it is a core competency of our firm. Initiatives such as our Tactical Opportunities, Core+ real estate, and Strategic Partners secondaries business, as well as our daily liquidity hedge fund products, are just a few of our more recent new offerings that have staked out leading market positions and grown assets in a meaningful way, and we have many others in the pipeline. Roughly half of our total AUM comes from businesses or products that were not in our mix just a few years ago.

STRONG RESULTS AND A SOLID FOUNDATION

Given the challenging environment, we were able to report many remarkable accomplishments in 2015. Because of the solid foundation we've built over the years, each of our businesses delivered strong investment results and significantly outperformed their benchmarks and the public markets. In 2015, we raised a staggering \$94 billion – a fundraising record for us and an amount that is more than the entire AUM of most well-known market participants. Our own assets under management reached another all-time high of \$336 billion. Realizations for fund investors were \$43 billion, following a \$45 billion year in 2014, or \$88 billion in 24 months.

Economic net income for 2015 was \$2.2 billion or \$1.82 per unit, reflecting strong levels of management fees coupled with impressive

investment performance across all platforms, albeit at lower rates than 2014. Distributable earnings were a record-setting \$3.8 billion, or \$3.23 per unit, rising 25% and 29% over the prior year, respectively. Distributions to unit holders totaled \$2.73 for the year.¹

While our core earnings growth, distributions and fund performance have been exceptionally strong, the price of BX shares this year reflected the unsettled equity markets. However, the short-term concerns of equity investors are not shared by our LPs, who continue to entrust a larger share of their assets to Blackstone and clearly subscribe to the longer view, as do we and as is reflected by our record inflows in 2015.

Volatility is ultimately a positive for our business, enabling substantial deal flow at favorable risk-adjusted returns. During 2015, we deployed \$32 billion and we remain on the lookout for new opportunities. The deals we're doing in this challenging environment are planting the seeds for potentially significant future distributions. As I said on our earnings call, we've seen versions of this movie before with always the same outcome: outsized returns for someone. We closed our first fund, Blackstone Capital Partners, immediately prior to the 1987 crash. Where many saw the world ending, we saw a prime opportunity to invest. We're still executing on the same strategy as we were when we raised that fund, which delivered very strong returns for investors.

THE BLACKSTONE DIFFERENCE

Our investment strategy is reflected in a number of key transactions during 2015 that illustrate our differentiating strengths: specifically the ability to invest at scale, analyze complex situations, commit capital quickly, and provide innovative solutions.

When GE Capital Real Estate sought to exit its global real estate business, Blackstone provided a complete solution. In a transaction valued at \$23 billion, our global real estate team underwrote the complex portfolio (612 assets, 14 countries) in less than a month, and partnered with Wells Fargo to

acquire assets through four separate Blackstone real estate vehicles. I believe that no other firm has the scale, breadth and global reach to handle a transaction of this magnitude.

Blackstone funds and co-investors acquired Stuyvesant Town and Peter Cooper Village in New York City for \$5.3 billion. Built in the 1940s, this is the largest rental apartment complex in the U.S. and has provided affordable housing for generations of working class New Yorkers. The deal included a historic 20-year agreement with the City of New York to preserve 5,000 units, or nearly half the complex, as affordable.

Our credit business, GSO, continues to provide solutions at times of widening spreads when high-yield financing options are limited for many companies. That team recently provided \$550 million for the acquisition of Belk, one of the largest department store chains in the southeastern U.S. While this role as a solution source is partly based on our ability to provide capital, it also reflects our hands-on approach across the firm to working with management teams to create healthier, more stable, faster growing businesses. Our experience in driving improved performance and greater value is borne out by our PE portfolio companies, which delivered 9% aggregate EBITDA growth in 2015.

In private equity, our reach has led us to build out strong local teams on the ground globally. 2015 marks a decade since Blackstone established its office in India in August 2005, during which time we have patiently invested \$2.5 billion across 21 transactions in various sectors. 2015 also marked the first IPO for a Blackstone portfolio company in India, SH Kelkar, which was received extremely well by the public market.

SHARING OUR SUCCESS

This consistent approach to our business dovetails with another differentiating strength – our commitment to address vital economic and social needs. More than half of our employees engage in volunteer activities, supporting educational and civic initiatives in their communities. Led by

¹Total GAAP Net Income Attributable to The Blackstone Group L.P. was \$710 million in 2015. For a full reconciliation of GAAP to Non-GAAP measures, please see Blackstone's Form 10-K for the year ended December 31, 2015

the Blackstone Charitable Foundation, in 2015 our Entrepreneurship Initiative brought the Foundation's Blackstone LaunchPad program to five universities in New York State, as well as to three campuses in Ireland, our first global expansion. Today, 500,000 aspiring student entrepreneurs in seven regions now have access to LaunchPad programs.

We're also tremendously proud of the commitment we made to The White House's "Joining Forces" initiative in 2013 by pledging to hire 50,000 former military personnel across our portfolio in five years, and have already hired more than 30,000. This year, we partnered with KKR, Carlyle and TPG to expand our annual summit to include representatives from across the industry. The event was a great success, with U.S. First Lady Michelle Obama delivering keynote remarks and 150 hiring executives from the firms' collective portfolio in attendance.

I'd also like to take this opportunity to recognize our Advisory practices, which were spun-off in a merger with PJT Partners in 2015. For reasons we have discussed previously, we determined that it was best for our advisory and investing businesses to pursue separate paths to growth. We have every confidence that with its core of terrific Blackstone team members, PJT Partners will further strengthen its position as one of the preeminent financial advisory firms in the world.

CONSTANT VALUES IN A CHANGING MARKETPLACE

In short, the competitiveness and growth of our firm begins and ends with investment performance, and one reason our businesses are so successful is that we hire people who are "10 out of 10" to run them. Talent – at all levels – is one of our chief assets. In 2015, this ongoing interest in attracting and retaining the best talent led us to extend maternity leave to 16 weeks. Because of these and other workplace initiatives, Blackstone has repeatedly been named one of the "Best Places to Work" by *Pensions & Investments* and Vault.com.

These values resonate especially in times of

uncertain market conditions, and make Blackstone indispensable to our stakeholders. For our LPs, we deliver the returns that allow them to meet their obligations to retirees and public institutions. For corporations, we offer financial and intellectual capital to support their businesses, even when other credit sources are constrained. And for society, we commit resources to encourage entrepreneurship and expand opportunities.

I want to thank our investors and unitholders for their confidence in us, and our employees for their commitment to our success. We're always striving to do better and to do more, and 2016 will be no exception. We will keep blazing the trail ahead, and with your continued support look forward to a future as rewarding as our past.

Sincerely,



Stephen A. Schwarzman
Chairman, Chief Executive Officer and Co-Founder